

## Message Text

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PAGE 01 SANTIA 05531 01 OF 02 122240Z

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 AGR-10 CEA-01 CIAE-00 COME-00

DODE-00 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00

NSC-05 PA-02 AID-05 CIEP-02 SS-15 STR-04 TAR-01

TRSE-00 USIA-15 PRS-01 SP-02 OMB-01 FEA-01 /105 W

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R 122039Z AUG 75

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 4333

UNCLAS SECTION 1 OF 2 SANTIAGO 5531

E.O.11652:N/A

TAGS: EFIN, EIND, EINV, CI

SUBJ: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: A) STATE 165596: B) SANTIAGO A-84, APRIL 10, 1974

1. SUMMARY: SINCE THE SEPTEMBER 1973 COUP THE GOC HAS BEEN ATTEMPTING TO FOSTER AN ECONOMIC AND LABOR CLIMATE CONDUCIVE TO A LARGE FLOW OF FOREIGN INVESTMENT. MANY EXPROPRIATED AND NATION-ALIZED FIRMS WERE RETURNED TO THEIR FOREIGN OWNERS, A NEW FOREIGN INVESTMENT LAW WAS PROMULGATED, AND NEW TAX LAWS FAVORING INVESTMENT, FOREIGN AND DOMESTIC, HAVE BEEN ISSUED. NEW FOREIGN INVESTMENTS IN THE CHILEAN ECONOMY, HOWEVER, ARE ONLY NOW BEGINNING TO MATERIALIZE. WE ESTIMATE THE BOOK VALUE OF PRIVATE DIRECT US INVESTMENT AT ABOUT \$150 MILLION END SUMMARY.

2. FOLLOWING POINTS RESPOND TO NUMBERS (1) - (21) OF PARA 4 OF STATE 165596:

(1) ATTITUDE OF GOVERNMENT & OTHER GROUPS TOWARD DIRECT FOREIGN INVESTMENT IS POSITIVE: COMPLICATED ONLY BY OBLIGATIONS TO ANDEAN PACT.

ATTITUDE TOWARD ROLE OF PRIVATE SECTOR IN CHILEAN ECONOMY IS MOST POSSITIVE, EXCEPT FOR PUBLIC UTILITIES AND TRANSPORTATION WHERE PUBLIC OWNERSHIP IS PREFERRED; INDUSTRIES INVOLVED IN EXPLOITATION  
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PAGE 02 SANTIA 05531 01 OF 02 122240Z

OF NATURAL RESOURCES NOW OWNED BY STATE WILL LIKELY REMAIN STATE-OWNED,

BUT DFI WELCOMED IN NEW EXPLOITATION OF COPPER, NITRATES, IRON, COAL AND PETROLEUM.

(2) (SEE SANTIAGO A-14.) DECREE LAW 600 OF JULY 13, 1974, SETS FORTH A BASIC SET OF PRINCIPLES TOWARD DFI, EMPHASIZING THAT FOREIGNERS SHOULD AS NEARLY AS POSSIBLE, BE TREATED THE SAME AS NATIONAL INVESTORS. SPECIFIC DETAILS REGARDING REMITTANCES, TAXES, DEPRECIATION RATES, ETC. ARE LEFT TO BE SET OUT IN INDIVIDUAL CONTRACTS BETWEEN THE FOREIGN INVESTOR AND THE GOC (KOMITE DE INVERSION EXTRANJERA). TOO FEW CONTRACTS HAVE BEEN PUBLISHED TO DERIVE ANY SPECIFIC SET OF INCENTIVES OR RESTRICTIONS.

(3) (A) THE ONLY SPECIFIC TARIFF POLICY WHICH ENCOURAGES INVESTMENT OVER DIRECT EXPORTS TO CHILE IS THE PREFERENTIAL ACCESS TO THE ANDEAN GROUP COUNTRIES FOR FOREIGN MANUFACTURERS WHO LOCATE IN CHILE TO SERVE THAT MARKET; DUTIES ON INDUSTRIAL PRODUCTS OTHERWISE RANGE GENERALLY FROM 30 TO 90 PERCENT AD VALOREM.

(B) CAPITAL GOODS IMPORTED AS PART OF AN INVESTMENT PROJECT (MINIMUM OF 20 PERCENT FOREIGN CAPITAL) WILL BE ALLOWED TO ENTER DUTY-FREE.

(C) ONLY AS STATED IN (A) ABOVE.

(4) GOC WELCOMES PRACTICALLY ALL DFI; IT FEELS IT CANNOT AFFORD TO DISTINGUISH AMONG POTENTIAL INVESTMENT ON THE BASIS OF ITS DEVELOPMENT POLICY. IMPORT SUBSTITUTION CONSIDERATIONS ARE RELATIVELY UNIMPORTANT.

(5) NO DIFFERENCE BETWEEN FOREIGN AND DOMESTIC INVESTMENT.

(6) GOVERNMENT ADMINISTRATIVE PRACTICES AFFECT DFI MAINLY ON ENTRY I.E., WHEN REACHING AGREEMENT ON FOREIGN EXCHANGE, REMITTANCES ABROAD, TAXATION, ETC. (DL 600, ARTICLE 3X). CONTRACTS WILL LAST 10 TO 20 YEARS, AFTER WHICH DFI BASED INDUSTRIES WILL CONTINUE TO BE FOREIGN OWNED, BUT WILL NOT ENJOY SPECIAL TREATMENT VIS-A-VIS DOMESTIC ENTERPRISE.

(7) DFI MAY BE 100 PERCENT, MUST BE A MINIMUM OF 20 PERCENT IN UNCLASSIFIED

UNCLASSIFIED

PAGE 03 SANTIAGO 05531 01 OF 02 122240Z

ANY PROJECT IN ORDER TO RECEIVE BENEFITS OF DL-600.

(8) GOVERNMENT POLICY IS TO RELY MOSTLY ON MARKET FORCES TO DETERMINE AGGREGATE DEMAND. FISCAL AND MONETARY POLICY IS NOW STRONGLY ANTI-INFLATIONARY WITH EFFECTIVENESS YET TO BE DETERMINED. MANY WAGES ARE FIXED BY LAW AND PRACTICALLY ALL ARE INFLUENCED BY GOVERNMENT WAGE-SCALE; ADJUSTMENTS ARE MADE PERIODICALLY ACCORDING TO COST-OF-LIVING INDEXES. A FEW BASIC COMMODITIES (MAINLY ELECTRICITY,

FOOD, TRANSPORTATION AND FUEL) HAVE CONTROLLED  
PRICES- OTHER PRICES ARE DETERMINED BY THE MARKET.

(9) GDP FOR 1975 IN REAL TERMS EXPECTED TO FALL BY FIVE PERCENT OR  
MORE COMPARED TO 1974. (SEE SANTIAGO A-93.)

(10) NO SPECIAL INCENTIVES EXIST TO DIRECT INVESTMENT  
TOWARD PARTICULAR INDUSTRIES. GOVERNMENT POLICY FAVORS TRANSFER  
OF STATEOWNED INDUSTRY, EXCEPT FOR EXISTING INDUSTRY IN MINERALS AND  
PETROLEUM, TO PRIVATE SECTOR WHETHER FOREIGN OR DOMESTIC.

(11) NONE

(12) NO SIGNIFICANT RULES ON LOCAL EMPLOYMENT. COLLECTIVE  
BARGAINING, RIGHT TO ORGANIZE, RIGHT TO STRIKE, ETC., PROHIBITED  
UNDER STATE OF SEIGE.

(13) DISCRIMINATORY ASPECTS OF GOVERNMENT PROCUREMENT POLICIES  
ARE NOT SIGNIFICANT.

(14) MAIN EXPORT INCENTIVES ARE PREFERENTIAL ACCESS TO ANDEAN  
COUNTRIES AND VAT DRAWBACK SYSTEM. EXPORT BIASED FOREIGN INVEST-  
MENT MIGHT GAIN MORE FAVORABLE TERMS IN INVESTMENT CONTRACT, BUT  
THIS HAS YET TO BE DETERMINED.

(15) SUBJECT TO INDIVIDUAL NEGOTIATION/CONTRACT.

(16) CHILE HAS ANTI-TRUST LAWS, BUT NOT OF GREAT HINDRANCE TO  
BUSINESS.

(17) US FOREIGN INVESTORS MAY REGISTER POTENTIAL INVESTMENTS  
WITH OPIC BUT NO NEW CONTRACTS HAVE YET BEEN CONCLUDED.

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PAGE 04 SANTIAGO 05531 01 OF 02 122240Z

(18) US AND CHILE HAVE BILATERAL FCN TREATY; NO TREATY ON  
DOUBLE TAXATION.

(19) EXTRATERRITORIAL APPLICATION OF LAWS IS UNLIKELY TO BE  
A SERIOUS OBSTACLE TO US INVESTMENT IN CHILE.

(20) MANY INDUSTRIES, BOTH FOREIGN AND DOMESTIC, WERE  
NATIONALIZED DURING FREI AND ALLENDE ADMINISTRATIONS, 1964-73.  
SINCE MILITARY COUP IN SEPTEMBER 1973 ALL EXPROPRIATED PRO-  
PERTY HAS BEEN EITHER RETURNED OR COMPENSATION  
AGREEMENTS HAVE BEEN  
NEGOTIATED WITH FORMER OWNERS BY GOC.

(21) PAYMENTS TO FOREIGN INSTITUTIONS FOR THE USE OF PATENTS  
AND ROYALTIES ARE SUBJECT TO A 40 PERCENT TRANSMITTAL TAX.

HOWEVER, UNDER CERTAIN CONDITIONS, PAYMENTS, FOR ENGINEERING AND TECHNICAL ASSISTANCE PROJECTS, PARTICULARLY WHEN THEY ACCOMPANY FOREIGN INVESTMENTS, HAVE RECENTLY BEEN EXEMPTED FROM THIS TAX. (DECREE LAW 1122, AUGUST 2, 1975.)

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PAGE 01 SANTIA 05531 02 OF 02 122251Z

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TRSE-00 USIA-15 PRS-01 SP-02 OMB-01 FEA-01 /105 W

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FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 4334

UNCLAS SECTION 2 OF 2 SANTIAGO 5531

3. NARRATIVE STATEMENT: FOREIGN INVESTMENT CLIMATE IN CHILE.

(A) IN JUNE 1974, THE CHILEAN GOVERNMENT PUBLISHED DECREE LAW 600 WHICH, IN MARKED CONTRAST TO LEGISLATION AND PRACTICES UNDER PRECEDING REGIMES, WAS DESIGNED TO ATTRACT FOREIGN INVESTMENT ON A LARGE SCALE. SINCE MUCH OF THE CHILEAN ECONOMY HAD BECOME DECAPITALIZED DURING PREVIOUS YEARS, THE NEW REGIME REGARDED FOREIGN INVESTMENT AS AN ESSENTIAL ELEMENT FOR BRINGING ABOUT RAPID ECONOMIC RECOVERY AND THEN FOR SUSTAINING A HIGH RATE OF ECONOMIC GROWTH. DL 600 PROVIDES GUIDELINES FOR THE CONTRACTS WITH INDIVIDUAL INVESTORS WHICH ARE TO SPECIFY THE DETAILS GOVERNING EACH INVESTMENT. IN GENERAL TERMS, FOREIGN INVESTORS ARE TO BE TREATED THE SAME AS DOMESTIC INVESTORS.

(B) IN LINE WITH ITS POLICY OF ECONOMIC RATIONALIZATION, THE GOVERNMENT HAS BEEN REDUCING TARIFFS AND SPURRING THE DEVELOPMENT OF EXPORTS INDUSTRIES THROUGH REALISTIC EXCHANGE POLICIES AND THROUGH MORE FAVORABLE TREATMENT OF EXPORT INCOME. THE GOVERNMENT IS FORSAKING THE USE OF HIGH PROTECTIVE BARRIERS TO FOMENT NEW INDUSTRIES. FOREIGN AS WELL AS DOMESTIC INVESTORS IN

MANUFACTURING PLANTS THUS HAVE TO CONSIDER EXPORT POSSIBILITIES  
WHEN ECONOMIES OF SCALE ARE IMPORTANT CONSIDERATIONS.

(C) CHILE'S COMPARATIVELY LIBERAL TREATMENT OF FOREIGN  
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PAGE 02 SANTIA 05531 02 OF 02 122251Z

INVESTMENT SOMETIMES CONFLICTS WITH THE COUNTRY'S OBLIGATIONS  
WITHIN THE ANDEAN PACT. THE GOVERNMENT IS ATTEMPTING IN DIS-  
CUSSION WITH ITS ANDEAN PACT PARTNERS TO RECONCILE CHILE'S "OPEN  
ECONOMY" OBJECTIVES WITH THE MORE RESTRICTIVE ANDEAN PACT RULES  
GOVERNING FOREIGN INVESTMENT (DECISION 24). DELAY IN SETTLEMENT MAY  
PERPETUATE EXISTING UNCERTAINTIES, AND THUS RETARD INVESTMENT IN  
MANUFACTURING; BUT PRIOR RESOLUTION IS NOT NECESSARY FOR NEW  
INVESTMENT IN RAW MATERIAL EXPLOITATION. TWO SIGNIFICANT MINING  
INVESTMENTS WHICH MAY TOTAL \$99 MILLION HAVE BEEN APPROVED AND  
CONTRACTS GOVERNING INVESTMENTS IN FIVE NEW COPPER PROPERTIES ARE  
EXPECTED TO BE SIGNED IN THE NEXT SIX MONTHS.

(D) AN ADVERSE BALANCE OF PAYMENTS SITUATION AND RAMPANT  
INFLATION INDUCED THE GOVERNMENT IN MAY 1975 TO ADOPT  
A STRINGENT AUSTERITY PROGRAM. FISCAL AND MONETARY RETRENCHMENT  
HAVE IN TURN DAMPENED FOREIGN INVESTORS INTEREST IN PRODUCING  
FOR THE LOCAL MARKET. THE GOVERNMENT IS TRYING TO OFFSET THESE  
NEGATIVE INVESTMENT, ESPECIALLY THAT INVOLVING NEW TECHNOLOGY,  
AND NEW FACILITIES FOR EXPORTS.

4. STATISTICS AS FOLLOWS:                      \$MILLIONS

TOTAL FOREIGN INVESTMENT		440
US INVESTMENT	150	
OF WHICH:		
MINING & SMELTING	15	
PETROLEUM	11	
MANUFACTURING	103	
OTHER	21	
NON - US	290	
OF WHICH:		
GERMANY, FEDERAL REPUBLIC OF		160
JAPAN	75	
UNITED KINGDOM	50	

SOURCE: U.. EMBASSY, SANTIAGO  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FOREIGN INVESTMENT, INVESTMENT LAW, INVESTMENT OPPORTUNITY REPORTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 12 AUG 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
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**Enclosure:** n/a  
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**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 STATE 165596, 74 SANTIAGO A-84  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** ellisoob  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 14 FEB 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <14 FEB 2003 by ReddocGW>; APPROVED <09 FEB 2004 by ellisoob>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FOREIGN INVESTMENT CLIMATE AND STATISTICS  
**TAGS:** EFIN, EIND, EINV, CI  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006